# HMA President's Message Andrew Don MD

## Can a Fee-for-Service System Prevail in a Managed Care Environment?

There were five of us who completed ENT residency training at Los Angeles County–University of Southern California Medical Center. I set up my practice in Maui, Hawaii, while the other four remained in California. I soon realized that the reimbursements for my services were definitely lower than that of my former ENT colleagues in California. California's fee-for-service reimbursements were increasing at a rate more rapid than the reimbursements allowed by Hawaii's tightly controlled usual, customary and reasonable insurance carrier, in which 90% of Hawaii physicians participate.

As costs rose steadily in California, the fee-for-service system was easily replaced by capitated managed care programs deemed to be more cost effective. In Hawaii, the employer-mandated health insurance program brought about near-universal coverage, less uncompensated care and a larger risk pool. Perhaps the slower rate of growth in Hawaii's health care costs and physician reimbursement has allowed the fee-for-service program to continue while elsewhere in the country there has been rapid growth in capitation programs. We would like to believe that Hawaii's physicians, given the independence to use their ability and best medical judgment, have been instrumental in maintaining a cost-effective system that has resulted in better performance standards than elsewhere.

Physicians are quite naturally concerned about the State's decision to launch Med-QUEST, a managed competition system to replace the Medicaid program and approved by HCFA for a 5-year trial period. After watching Hawaii evolve from a plantation system of capitation to the fee-for-service system in the mid-30s, and watching a welfare system evolve from the *wooden bench* free clinics to the Medicaid program that *mainstreams* the indigent population, we cannot help but wonder about the ultimate effect on the quality and continuity of care. While Medicaid patients received the same care as private patients, the physicians often provided care to the indigent patient at less than the cost of their overhead. After these many years of humanitarian service, the State has not acknowledged the charitable contributions made by physicians or recognized the valuable insight physicians can provide in containing the burgeoning costs of the Medicaid program.

It is somewhat refreshing to hear Marvin Hall, president and CEO of HMSA, which has been the dominate health insurer in Hawaii, speak to reaffirm his commitment to providers in the fee-for-service system. HMSA is the only insurer of the five awarded Med-QUEST contracts that will offer a modified fee-for-service system of reimbursement, although it will utilize primary care providers as case managers. However, mere commitment from a health insurer will not preserve fee-for-service in this competitive marketplace. It will require all physicians to be conscious of quality, cost-effective health care and to utilize resources wisely and prudently.

Why keep fee-for-service? In order to maintain the high standard of quality health care we have today, a pluralistic system is required in today's competitive market. Fee-for-service offers choice to patients to select their own physicians when the need arises. Physicians work to care for the patient, not to satisfy a health care plan. Patients select physicians based on their known reputation for excellence, not because a health care plan directs them to a physician.

In any health care plan, the patient's choice must be preserved. The health care plan must not allow financial incentives to interfere with medical judgment. Health care plans should be prohibited from establishing arrangements with *disincentives* to refer patients. A mandatory point-of-service option should be included in all plans with limits on out-of- pocket expenses to the patient. All health plans must establish arrangements to provide a full range of specialized care for enrollees. Finally, medical and surgical specialists working with primary care physicians must begin to develop practice parameters and guidelines on the appropriateness and timeliness of referrals.

If these conditions are met in a health care plan, I believe the ultimate quality seen in the fee-for-service system will be preserved.